

Federal Adoption Tax Credit

Since the tax year 2003, families with an adjusted gross income of less than approximately \$200,00 (the exact figure is revised every year) who adopted an eligible child have been able to claim a federal adoption tax credit.

According to the IRS “An eligible child must be under 18 years old, or be physically or mentally incapable of caring for himself or herself. The adoption credit or exclusion cannot be taken for a child who is not a United States citizen or resident unless the adoption becomes final.” (IRS Topic 607-Adoption Credit)

Families may also be eligible for an increased credit or exclusion for expenses related to the adoption of a child with special needs if the child otherwise meets the definition of a qualifying child, is a U.S. citizen or resident, and a state determines that the child cannot or should not be returned to his or her parent’s home and probably will not be adopted unless assistance is provided. If a family receives an adoption subsidy, it would indicate the state has determined the child has special needs, and the adoption subsidy agreement provides the documentation of the qualifying special need.

The adoption tax credit can be used over six years, beginning the year the adoption was finalized. For the 2008 tax year, the adoption tax credit will be \$11,650 per child. A tax credit is subtracted directly from the family’s federal tax liability. If the federal tax liability for 2008 is less than the credit amount, the remaining credit can be carried forward for up to an additional five years.

If a family finalized an adoption in 2005, 2006 or 2007 and has not claimed the adoption tax credit, they may be able to amend their federal return to take advantage of the credit. The family should consult their tax professional.

The adoption tax credit is claimed on IRS Form 8839. That form, a publication explaining how to complete Form 8839, and additional information on the adoption tax credit can be found on the IRS website at www.irs.gov . There is also a fact sheet with additional information about the federal adoption tax credit on the website of the North American Council on Adoptable Children at www.nacac.org

This is for informational purposes only. Any questions regarding the adoption tax credit should be referred to a tax professional or to the Internal Revenue Service. The staff of DHS, Iowa KidsNet and the Iowa Foster and Adoptive Parents Association (IFAPA) are not tax professionals and cannot give tax instruction or advice.